



CLEARER

2 CEO statement 4 About our company 10 Our stakeholders 16 Our supply chain 36 Our environmental impacts 42 The road map

COVER JUDGES WATCH THE PROGRESS AT THE MEN'S
10,000 METRES. HAILE GEBRESELASSIE OF ETHIOPIA
WENT ON TO SET THE BEST TIME OF THE GROUP

In the fast-paced world of sport, we need moments of reflection. Watching the video replay, analysing strengths and weaknesses, listening to the impartial judgements of officials – these are crucial to help athletes build a clear picture of their performance. As we move towards becoming a more sustainable company, producing this report has helped us stand back and reflect on our own work. It gives us a clearer perspective: not just on our progress over the year, but on the challenges we face in the future.

CEO STATEMENT Last year we took the important step of publishing our first social and environmental report, which we called Our World. This was our first comprehensive public statement about adidas-Salomon's social and environmental programmes.

In that report, we described the world of our brands and the world where our products are made. We measured the performance of our suppliers in improving working conditions in their factories, and gave some measures of the environmental impact of our activities. By doing so, we wanted to show our commitment to applying the values of our brands – authenticity, inspiration, commitment and honesty – in our partnerships with the factories that make our products, and in our manufacturing process. We believe that being transparent and communicating clearly about our progress in this area also reflects those values.

This report builds on the information given in Our World and gives a deeper and more detailed picture of the factories in our supply chain. This year, we disclose information about the sourcing activities of all the brands in our Group, and cover the local suppliers for our national subsidiaries as well as the suppliers for our international markets. We also look closely at our environmental work this year, the highlight of which has been the revalidation of the EMAS certification of our Scheinfeld footwear factory in Germany.

The emphasis of our approach, as the road map chapter beginning on page 42 shows, is to build factories' capacity to introduce higher working standards themselves. Through training, factory managers become better at communicating with workers and create the conditions for workers to be able to

communicate openly with management about issues that need improving. This is the best guarantee that our Standards of Engagement (SOE) – the company code of conduct that aims to ensure our suppliers' factories are safe, fair places in which to work – becomes a reality in our supply chain.

The SOE programme is led by the SOE team, which began factory visits in 1997. The team was fully in place by the end of 1999, and now in 2001 it has consolidated its strong regional structure in the Americas, Asia and Europe. The team, which is independent from our sourcing organisation, is a diverse group of people with a variety of educational and professional experiences and with backgrounds from inside and outside the company, such as engineers, lawyers, quality controllers and former non-governmental organisation workers. Whenever possible, our SOE managers come from the communities in which they are working, which means that they have the necessary language skills, and an understanding of local conditions and customs. They also have first-hand knowledge of local regulations. This enables them to communicate more effectively with both workers and management. In 2001, we conducted 839 audits in supplier factories, and 267 training sessions were given to factory management and our local office teams.

This report is a step forward in moving our company nearer to our stakeholders. In 2001, we began to consult with non-

governmental organisations in a more systematic way (this is described in the stakeholders chapter beginning on page 10). The Fair Labor Association (FLA) also helps us to work with non-governmental organisations and universities for the independent monitoring of our supply chain. External independent monitors, accredited by the FLA, began to audit our suppliers in August 2001, and 15 factories in total were audited in the year.

Our suppliers are also key stakeholders, which is why our Footwear Operations group conducted a survey of their views on their business partnerships with us. A summary of the findings can be found in the supply chain chapter of this report (page 16).

The report is also written for our employees, who are clearly our most valued resource. They work with us because they are passionate about sport and believe in the values of the company, which come from sport. They are thus a group of stakeholders who have strong opinions about how the company should behave, and they want to know that our values are being upheld.

In 2001 we were delighted to become a member of the World Business Council for Sustainable Development. This gives us the chance to work closely with many of the world's leading companies from a wide variety of sectors who are seeking to find a sustainable long-term future for business and its

stakeholders, and to be involved in debates on social and environmental affairs at a global level.

In 2001 we were also pleased that the Dow Jones Sustainability Index judged adidas-Salomon to be top of the textile and footwear sector, progressing from fourth place in the previous year. We were also admitted to the FTSE4Good Europe index when it was launched, and the rating company Innovest gave us a triple-A score for our environmental programme in 2001.

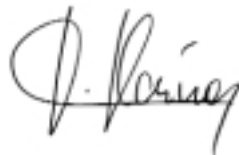
Investors seem to welcome social and environmental reporting and signs that companies have long-term plans for a sustainable future. Other sports brands have followed our lead by publishing social and environmental reports. The upward trend in share prices for the sector has not been harmed by companies being more open. In fact, the increase in socially responsible investing may have encouraged that trend.

The Global Reporting Initiative (GRI) guidelines have helped us to structure this year's report and also to identify the gaps in our performance-based SOE system. In the second quarter of 2002 we will field test a factory scoring system that will use more detailed indicators to give a more meaningful picture of the social and environmental performance of the factories in our supply chain.

In 2002 we are publishing the Annual Social and Environmental Report for 2001 on the same day as the 2001

Annual Report. This is a sign that we see the link between the financial performance of the company and our progress in social and environmental affairs. Our SOE programme is driven by our values, and by our belief that as a company we must fulfil our responsibilities to society, to the people who make our products, and to our investors. As you read through this report, you will see that our SOE programme also makes good business sense. Risk management for adidas-Salomon is more effective and protecting our reputation gives direct bottom-line benefit.

This report shows that we have made progress in the last 12 months and demonstrates why we are seen as a leading company in social and environmental responsibility. However, we also accept that, to be a truly responsible company, we need an even clearer picture of our social and environmental impacts. Like athletes aiming for peak performance, we are continuing to set ourselves new targets and challenges. These will give us a clear perspective of our progress as we work towards a more sustainable future.



Herbert Hainer
CEO and Chairman of the Board

THE EMPHASIS OF OUR APPROACH IS TO BUILD FACTORIES' CAPACITY TO INTRODUCE HIGHER WORKING STANDARDS THEMSELVES. THROUGH TRAINING, FACTORY MANAGERS BECOME BETTER AT COMMUNICATING WITH WORKERS AND CREATE THE CONDITIONS FOR WORKERS TO BE ABLE TO COMMUNICATE OPENLY WITH MANAGEMENT ABOUT ISSUES THAT NEED IMPROVING

HIGHER

ABOUT OUR COMPANY adidas-Salomon is a global leader in the sporting goods industry. We market products under three well-known brand names – adidas, Salomon and TaylorMade. These brands have set consistently high standards for business performance. Today, we are striving to make sure that our social and environmental performance matches these standards.



With a share of around 15% of the world's sporting goods market, adidas-Salomon is a global industry leader. The Group consists of three major sports brands: adidas, Salomon and TaylorMade-adidas Golf. Together, these brands offer products covering all sporting categories, in all global markets.

Our brands

adidas is one of the best-known brand names in the sporting goods market. adidas products include footwear, apparel and hardware. The brand is structured in three consumer-oriented divisions: Forever Sport, Originals and adidas Equipment.

Salomon is the largest winter sports brand offering skis, boots, bindings and snowboards. It is currently expanding into the outdoor adventure sports market. Salomon has its own family of brands: Salomon, Mavic, Bonfire, Arc'Teryx and Cliché.

TaylorMade-adidas Golf offers golf hardware, footwear, apparel and accessories. It is the market leader for premium metal woods. The brand markets products under the names TaylorMade-adidas Golf, Maxfli and Slazenger Golf.

What we cover in this report

Last year's report mainly covered international adidas-brand operations, which account for approximately 80% of our total net sales. In 2001 we have extended our social and environmental monitoring programme to sourcing operations that are conducted by adidas subsidiaries locally and licensees. Furthermore, this report includes audits of supplier factories of the Salomon and TaylorMade brands.

Our mission and values

We have four core values, derived from the world of sport: **authenticity, inspiration, honesty, commitment.** Our mission statements are based on these values.

Corporate mission 'adidas-Salomon strives to be the global leader in the sporting goods industry with sports brands built on a passion for competition and a sporting lifestyle.

- We are consumer focused. That means we are continuously improving the quality, look, feel and image of our products to match and exceed consumer expectations and to provide them with the highest value.
- We strive to bring innovation in technology and design to our footwear, apparel and hardware products in order to help athletes of all skill levels achieve peak performance.
- We are a global organisation that is socially and environmentally responsible, creative and financially rewarding for our employees and shareholders.'

Corporate mission on social and environmental affairs Our mission is to be the global leader in the sporting goods industry. Leadership, in social and environment terms, means that: 'We are dedicated to socially responsible, safe and environmentally sustainable practices in the company and its supply chain, and

to enhancing the value of our brands by:

- guaranteeing the ideals of the company for the consumer and for those making our products
- strengthening our image and reputation
- making the supply chain more effective
- helping to provide a long-term future for sport.'

Standards of Engagement team mission The work of our SOE team aims to fulfil this mission: 'To improve the lives of the people who make adidas-Salomon products by partnering suppliers as they plan and implement continuous improvements in employment, health and safety, and environmental conditions.'

Principles of sustainability

Our principles of sustainability help us set standards for our own social and environmental performance and make the mission statements a reality. They are set out as follows.

Legislation We adhere to social and environmental laws, directives and guidelines while continually improving our own contribution to a sustainable society.

Management We aim to analyse, evaluate and assess the social and environmental impact of new products,

technologies and processes at the design and development stage; set clear targets; formulate action plans and monitor progress; and publish the results.

Supplier and customer relationships We expect suppliers' activities to be compatible with our SOE. We work in partnership with them to improve our collective performance.

We encourage our business customers to take a proactive stance on the social and environmental impact of their own activities.

Support We support social and environmental projects and develop partnerships with businesses and organisations whose products and services contribute to a sustainable society.

Stakeholder dialogue We aim to communicate with all stakeholders in an atmosphere of mutual trust and respect. We provide them with appropriate information related to the social and environmental performance of the Group on a regular basis. We monitor developments in sustainability reporting, particularly the Global Reporting Initiative guidelines, to ensure we produce useful information for our stakeholders. See page 48 for our assessment of how closely this report meets the GRI guidelines.

Where we are based

The company and its more than 100 subsidiaries are directed from our headquarters in Herzogenaurach, Germany. Also based in Herzogenaurach are the strategic business units for Running, Soccer and Tennis as well as the Research and Development Centre.

Other key corporate units are based in Portland, Oregon in the USA, the home of adidas America Inc and the strategic business units Basketball, Adventure and Alternative Sports. The strategic business unit Golf is based in Carlsbad California. The business unit Winter Sports is in Annecy, France. The company also operates design studios and development departments in other locations around the world, corresponding to the related business activity.

adidas-Salomon International Sourcing Ltd (aSIS), a fully-owned subsidiary with headquarters in Hong Kong, is

responsible for worldwide sourcing. Further sourcing offices belonging to aSIS are located in Brazil, China, Germany, Indonesia, Korea, Pakistan, Singapore, Taiwan, Thailand, Turkey, USA and Vietnam.

OUR PEOPLE

The success of adidas-Salomon is a direct result of the commitment and talents of the people who work for us. We are dedicated to finding, developing and retaining the best people for our company. In return, we aim to make sure that our employees are happy and motivated. We offer them a challenging, fun and financially rewarding working environment, where fair competition and a responsible attitude towards the environment and our internal and external business relationships are encouraged.

German company law on co-determination requires that half of our Supervisory Board is composed of employee representatives, members of the Works Council and external representatives from the Chemical Union, IGBCE. The Works Council is elected by the employees to represent their views and their interests.

Employee figures

As of 31 December 2001, adidas-Salomon employed 13,941 people, representing a growth of 4% over the previous year.

Diversity

adidas-Salomon is multi-cultural. Our headquarters employ people from 40 different countries and cultures who work together as a successful team. Our workplace encourages and promotes sexual equality and cultural and religious diversity.

Human resources mission

We are seeking to build the leading global team in the industry. Based on this, our mission is to:

- attract, develop, motivate and retain the best people for the adidas-Salomon Group globally

- promote diversity and intercultural understanding and learning
- foster an understanding of social and environmental responsibility for the world in which we live, for the rights of all individuals, and for the laws and customs of the countries in which we operate
- provide a secure working environment.

Human resources indicators

We have developed a set of key indicators that we measure so we can track our progress towards meeting our objectives. They also help us compare our performance with other companies. We are using a new database, which currently stores information about more than 20% of our workforce, to help us measure our progress in this area. The indicators are:

- total headcount/male/female
- average age of employees/region/worldwide
- employee turnover per region/worldwide
- average number of training hours per employee/year worldwide.

Our recruitment and training policy

We focus on using apprentices, trainees and interns for our entry-level positions. Additionally, we are increasing alliances with design colleges and universities as well as boosting our recruitment activities at relevant candidate events.

We train and develop our staff in two ways: by encouraging the exchange of corporate knowledge between regions and brands; and through development programmes for our young managers.

Initiatives in 2001

During 2001 we have developed a number of initiatives that benefit our staff.

Our rewards system We believe in rewarding our employees for commitment and hard work. Two of the main methods we use for rewarding employees are through our 'pay-for-performance' bonus programme and our management stock option programme.

ABOUT OUR COMPANY

The 'pay-for-performance' bonus programme offers a performance-based component to the salaries of eligible employees in all areas within the company. Of our employees, more than 20% now have a variable salary component and an average of 20% of their remuneration is directly linked to corporate performance.

Our management stock option programme links the compensation of key executives worldwide to changes in our share price. This actively enhances shareholder value by ensuring that management and shareholders have the same goals.

Pension programme Working with our employees, we significantly improved the company pension scheme in 2001. Taking advantage of the existing legislation in Germany, we upgraded our company pension trust fund, PP 2000. The company also offers other voluntary pension benefits and contributes to employee social security schemes around the world, based on the legislative requirements of the countries where our employees are based.

Flexitime In Germany, we have an advanced flexible working

hours programme in place, which is based on trust and personal accountability. To develop further our flexible working hours programme and to promote part-time employment models, we converted our planning unit from 'employee' to 'full-time equivalent'.

Work-Life Balance Collaborating with the Works Council in Herzogenaurach, we developed a new project called Work-Life Balance, which tries to make working compatible with family life. In recognition for this, adidas-Salomon received the Career and Family basic certificate from the Hertie Foundation. We have now worked out concrete goals to attain the full certificate. The programme will be rolled out to employees in other countries during 2002.

Also part of this initiative is a comprehensive company sports programme, which offers our employees various sports and fitness courses for their physical and mental well-being.

Collaboration with employee committees

In 2001 we enjoyed a trusting and constructive collaboration with

employee committees organised through the Works Council. Working together, we improved the company pension scheme, started the Work-Life Balance programme and began the planning for a European works council. An important target in 2002 will be to raise internal awareness of social and environmental issues and promote sustainable practices within the company.

FINANCIAL PERFORMANCE

Being a sustainable company is as much about long-term financial stability and growth as it is about having effective social and environmental policies. The tables opposite show our financial performance last year and compare this with the previous two years.

Market information

The adidas-Salomon share is listed on the stock exchanges in Germany and France. The stock is part of the DAX 30 index. The stock exchange registration number (WPKN) in Frankfurt is 500340.

KEY EMPLOYEE STATISTICS

Index/reporting unit	Global	Europe	North America	Latin America*	Asia
Total headcount (in %)					
Male	58	59	60	67	46
Female	42	41	40	33	54
Average age of employees (in years)	34.4	36.5	31.2	30.0	32.0
Employee turnover (in %)	10.5	8.0	12.0	15.7	18.6
Average number of training hours per employee/year world-wide	12.9	16.5	7.3	10.6	6.5

* Some subsidiaries have been established or taken over by the company in the last three years

Net sales split by brands

Net sales p.a. (euros in millions)	2001	2000	1999*
adidas	4,825	4,672	4,427
Salomon (incl Mavic and Bonfire)	714	703	587
TaylorMade adidas-Golf	545	441	327

* 1999 figures are restated due to transfer of adidas Golf to TaylorMade

Net sales split by main product divisions

Net sales p.a. (euros in millions)	2001	2000	1999
Footwear	2,650	2,516	2,222
Apparel	2,212	2,175	2,190
Hardware	1,250	1,144	929

Net sales split by regions

Net sales p.a. (euros in millions)	2001	2000	1999
Europe	3,066	2,860	2,723
North America	1,818	1,906	1,826
Asia	1,010	875	663
Latin America	178	171	126

Operating highlights 1999–2001

Operating highlights (euros in millions)	2001	2000	1999
Net sales	6,112	5,835	5,354
Income before taxes and minority interests	376	347	398
Net income	208	182	228

Key ratios (in %)

Gross margin	42.6	43.3	43.9
Selling, general and administrative expenses as a percentage of net sales	33.3	34.5	33.8
Effective tax rate	39.0	40.3	38.4
Net income as a percentage of net sales	3.4	3.1	4.3
Equity ratio	24.3	20.3	19.0

Per share of common stock (euros)

Earnings per share	4.60	4.01	5.02
Dividend per ordinary share	0.92*	0.92	0.92
Share price at year end	84.30	66.00	74.55

* Dividend proposal subject to Annual General Meeting approval

NEARER

OUR STAKEHOLDERS Every responsible company has a duty to get nearer to the people who are affected by its business practices. This means communicating with them openly and regularly and making sure they have a say in the direction of the business. Last year, we invited feedback from our stakeholder groups, asking for their opinions about our first report, and our performance in general. Their responses have helped us develop our plans for future improvement.



It is important that all of our stakeholders have a say in the direction of our business. We are continuing to search for new ways to listen to their opinions.

When we circulated the 2000 report we asked for feedback from our stakeholder groups. We received many comments: some positive, some negative. All were constructive and have helped us develop our SOE programme and the thinking that lies behind this, our second social and environmental report.

One of the conclusions of last year's report was that we must engage in more active dialogue with our stakeholders in order to make sure that we listen to their opinions and fully understand their diverse needs. During any given year we frequently meet with NGOs, government representatives, consumer groups, companies and others to discuss issues, but now we are seeking a more structured process of engagement.

STAKEHOLDER CONSULTATION

The first formal stakeholder consultation, held in December 2001, involved NGO groups in Asia. The consultation, which was organised to gather views and feedback from NGOs about their opinion of the role of adidas-Salomon as a socially and environmentally responsible company, was independently managed and recorded by Business for Social Responsibility. We also learned much about the NGO response to our first annual social and environmental report. Some of these views and several direct quotes appear below.

On the first annual report:

- 'The adidas-Salomon report is light years ahead...'
- 'Where are the workers in your annual report? Isn't this about them?'

- 'It's almost as though you chose drab colouring to play things down ... it still looks like a product catalogue.'

On the question of whether adidas-Salomon is directly responsible for the employees of our partner supplier factories:

- 'It's still a top-down approach [with workers].'
- 'The language of the SOE and your team mission assumes responsibility for workers ... I object to this because workers are responsible for themselves.'
- 'The community [to whom adidas-Salomon and suppliers are answerable] includes the workers, their families, local institutions, those who transport the goods, the NGOs...'

On the way adidas-Salomon presents the factories and the production process:

- 'You talk about the production process throughout [the report], but there's not a single picture in there.'
- 'Your communications should complicate the picture for everyone, especially the media.'
- 'It's not like you can strong-arm the factories into compliance ... people need to know that.'

On projects and approaches:

- 'Different approaches need to be tried instead of standardisation. It's the process that counts ... Failure is as important as success on the learning curve.'
- 'NGOs use a top-down approach [with workers] too. It's just a contest to see whose top-down approach is the right one ... This is where the workers get lost.'
- 'We need to strike a balance between the training [ie top-

down approach] – it's still important – and the assessment of workers' needs from their perspective.'

On the process of stakeholder dialogues and NGO capacity:

- 'Useful? Sure – it's helping us set out directions as well. The picture has changed for everyone ... The pace is tough to keep up with.'

SUPPLIER SURVEY

The adidas-Salomon International Footwear Operations group conducted a survey of all 16 international footwear suppliers in September 2001 across a range of issues, some of which addressed SOE matters. The objective of the survey was to get feedback on how well adidas-Salomon is working with our factories to help them meet the targets set by both parties.

The social and environmental issues covered in the survey were: our practices and communication with suppliers; our SOE; our hazardous substances policy; and the support we give factories. The factories were asked to respond to a number of statements and rate their response from 'strongly agree' to 'strongly disagree'. They were also asked open-ended questions.

The overall response was that suppliers felt positively about their business partnerships with us. Under practices and communication, most respondents agreed with the statement that they had never experienced corrupt behaviour from adidas-Salomon. On the downside, a third of factories do not agree with the statement that we have reasonable terms and conditions, and that we handle disputes fairly.

DURING ANY GIVEN YEAR WE MEET FREQUENTLY WITH NON-GOVERNMENTAL ORGANISATIONS, GOVERNMENT REPRESENTATIVES, CONSUMER GROUPS, COMPANIES AND OTHERS TO DISCUSS ISSUES, BUT NOW WE ARE SEEKING A MORE STRUCTURED PROCESS OF ENGAGEMENT

While almost all respondents agreed that we are a socially responsible company, many suppliers asked for more training on the SOE. We made good progress in this area in 2001, and we plan to improve further in 2002. Similarly, most factories think of adidas-Salomon as an environmentally responsible company, but they thought we should provide more training on our policy to avoid hazardous materials in footwear products.

Most factories responded that support was good but, when asked for suggestions to improve support, many mentioned more open and timely communication, closer cooperation and exchange of ideas.

Stakeholder partnerships: case studies

The following case studies are edited reports from our SOE team offices in Asia. They show how we work successfully with NGOs and other stakeholders to address concerns about our suppliers' labour and health, safety and environment (HSE) standards.

Local independent body to monitor child labour, Pakistan

We have a policy of encouraging our partners to claim ownership of sustainability practices at the local level. One successful example of this can be found in Sialkot, Pakistan, where we

helped to set up an independent monitoring body to eliminate the use of child workers from the football industry. Following the set up of a Board of Governors for the body, local organisations have been instrumental in taking the project forward.

The monitoring body was formed by the International Labour Organization (ILO), UNICEF, and Save the Children in partnership with a range of local organisations, including the Sialkot Chamber of Commerce and Industry. In the past, the ILO had implemented the monitoring programme. Now, the ILO is one of many international and local organisations in a Board of Governors set up to oversee the performance of the partnership that will appoint the monitors. Other key members of the board include Pakistan's Ministry of Commerce-Export Promotion Bureau and the All Pakistan Sporting Goods Manufacturers and Exporters.

The production of adidas footballs is also monitored by our operations team based in Sialkot, which checks for compliance against all the SOE standards. Football production is conducted only in registered centres, which are visited by both internal and external monitors.

A similar system operates in Jalandar, India, where the independent monitor SGS, an international monitoring

WHILE ALMOST ALL RESPONDENTS AGREED THAT WE ARE A SOCIALLY RESPONSIBLE COMPANY, MANY SUPPLIERS ASKED FOR MORE TRAINING ON THE STANDARDS OF ENGAGEMENT. WE MADE GOOD PROGRESS IN THIS AREA IN 2001, AND WE PLAN TO IMPROVE FURTHER IN 2002

company, operates with funding from the Sports Goods Foundation of India (SGFI). Formed in 1998, SGFI is made up of sports goods exporters who contribute 0.25% of their earnings from manufacturing footballs to support inspection and education programmes.

Health and safety project, China This project has been set up to improve the ability of local groups in southern China to identify, evaluate and correct workplace hazards. The project is a partnership between NGOs, academics in the US and Hong Kong, China-based footwear factories and multinational brands.

As part of the project, two health and safety training classes were held at a training centre in the Dongguang factory in July. The objectives of the training were to build basic health and safety knowledge and inspection skills. About 80 people took part in the classes, including NGO representatives, workers, factory supervisors and managers.

The project also sets out to ensure that factories establish HSE committees in order to foster a culture of safety and improve health and safety practices at work.

At the end of the project, the participants will meet to evaluate the project's process, activities, results and impact.

Vietnam Business Links Initiative Jointly managed by the International Business Leaders Forum, the Vietnam Chamber of Commerce and the Vietnam footwear industry, the Business Links Initiative aims to improve workplace conditions in footwear factories across Vietnam. The Initiative, now entering its third year, has focused primarily on awareness-raising and health and safety training for local and export-orientated factories. The responsibility for management of the project has now been passed to the Vietnam Chamber of Commerce and Industry and the steering committee.

adidas-Salomon seconded a technical advisor to help

coordinate the project. This responsibility has now been passed to local Vietnamese Government representatives on the steering committee. We also fund the project, together with the UK Government's Department for International Development and two other sports goods companies: Pentland and Nike.

At the end of 2001 the project moved to a new stage with the development of a Management Support System (MSS). The MSS provides information and guidance to factory managers, enabling them to review conditions, practices and procedures in their factories more effectively and develop appropriate remedial action plans. The first edition of the MSS in both hard copy and CD-ROM format was distributed to participating companies in the third quarter of 2001. The project also allows factories to share best practice sessions, helping them model improvements on the achievements of other factories, and organises train-the-trainer programmes.

The final phase of the project will be to work with tertiary institutes to develop local HSE teaching programmes for Vietnam. This phase is planned for 2002.

The Health and Safety Manual devised for the project is being reviewed by the Vietnam Labour Department and may help to form a code of practice for the footwear industry.

Education programme, Vietnam This programme was established to provide young people who had been employed at a Vietnamese footwear factory with an education and vocational skills.

Under our SOE, a factory may not employ child labour. The Vietnamese labour code states that juvenile workers may not work any overtime. However, during a first-round audit, the SOE Labour Monitor found that the factory was in breach of both of these standards. One 14-year-old child worker was found and many workers aged 15 to 17 were working overtime illegally.

THE FACTORY CLAIMED THAT THE YOUNG WORKERS WERE RECRUITED BASED ON FORGED IDENTITY CARDS OR CARDS BORROWED FROM OLDER SIBLINGS AND RELATIVES. HOWEVER, IT WAS CLEAR THAT FACTORY RECRUITMENT PROCEDURES DID NOT PREVENT THE EMPLOYMENT OF UNDERAGE WORKERS, AND THAT PERSONNEL FILES WERE IN POOR ORDER

The factory claimed that the young workers were recruited based on forged identity cards or cards borrowed from older siblings and relatives. However, it was clear that factory recruitment procedures did not prevent the employment of underage workers, and that personnel files were in poor order.

In discussions with factory management, the SOE team explained that simply laying off the young workers was not an option. As an alternative, we established an education programme with the assistance of US-based NGO Verité. The workers below 16 were offered full-time schooling at the factory and local teachers from the district were invited to lead the group through the Vietnamese primary curriculum. The workers aged 16 to 18 were offered afternoon vocational training and life-skills courses.

Despite many teething problems, locally appointed project coordinators fine-tuned the programme to meet the needs of the students, including introducing literacy classes, social outings and home visits.

The programme is currently being assessed by the local Vietnamese staff of Save the Children, Sweden. The assessment will be provided to all parties directly involved with the programme. It will also provide adidas-Salomon with broad recommendations regarding the control of underage workers and education programmes for young workers.

Several of these projects involve the donation of financial resources, and globally our national subsidiaries have a policy of

donating money or product to community organisations and projects. One recent example is financial support to Sudhaar, an education NGO in the football stitching area of Sialkot in Pakistan, and the Tahuichi Football Academy in Bogota, Bolivia, which gives street children a chance to become top-level footballers. In future, project sponsorship will be determined centrally in line with corporate objectives.

Supporting union rights in Indonesia Many NGOs raised concerns about the arrest of Ngadinah Binti Abu Mawardi, a trade union activist and secretary of a minority union at the PT Panarub factory, which supplies adidas footwear. Ms Ngadinah was arrested on 23 April and tried before the State Court in Tangerang under the vague charge of 'causing unpleasantness'.

The SOE recognises the fundamental right of association for all workers, together with the right for officially recognised workers' organisations to operate free from the interference of employers or the authorities. We therefore wrote to the Ministry of Manpower asking for an investigation into Ms Ngadinah's arrest so that we could be assured that she was being treated fairly and in line with ratified ILO conventions.

This letter was followed up by a visit in July to the Ministry of Manpower by some of our senior management team in Asia to further express our concerns. Subsequently, Ms Ngadinah was released without charge. She has since returned to work at PT Panarub.

DEEPER

OUR SUPPLY CHAIN The past year has seen a significant change in the way we deal with our suppliers. By placing larger orders with fewer factories, we have been able to engage in deeper, more effective partnerships with them. This more thorough approach is reflected in our reporting in this section. This year we are covering all the brands in the Group, as well as reporting on factories producing for local markets.



In last year's report we reported on the suppliers producing apparel and footwear for the international market. This year we cover suppliers who produce sports products not just for adidas, but for all the brands in the Group: adidas, Salomon and TaylorMade-adidas Golf.

We also report on the factories producing for the adidas subsidiaries in the same countries where the products will be sold. We call this 'local' production. The overall trend in the supply chain is for us to source products from fewer factories in the three main product categories: footwear, apparel and accessories. The consolidation of the supply chain is possible because we are aiming to place larger orders with fewer factories, particularly in apparel, where previously we have placed relatively small orders with a high number of factories. Increased efficiencies in footwear are also leading to business partnerships with fewer suppliers.

The result will be fewer but deeper business partnerships with suppliers who will not only be more efficient and cost-effective, but who will also be better at implementing the SOE and meeting high labour standards in their factories.

THE STANDARDS OF ENGAGEMENT

The standards and practices we expect our suppliers to follow are set out in our SOE, which we print in full opposite. Before working with us, suppliers sign a manufacturers' agreement with us, which commits them to complying with the SOE.

THE STRUCTURE OF OUR SUPPLY CHAIN

Our supply chain comprises three different types of suppliers:

- **main factories** – factories of suppliers who have a direct contractual business relationship to adidas-Salomon

- **sub-contractors** – factories that have been subcontracted by our suppliers. They do not have a direct business relationship with adidas-Salomon

- **local sourcing** – the sourcing and manufacturing of products for local markets, rather than export. These suppliers are being brought under the direct control of our Global Operations team to enable consistent management of the whole supply chain.

THE GUIDELINES

Our guidelines are one practical example of how we seek to improve factories. These guidelines are supplied to factories and used for training and consultancy purposes by the SOE team.

The SOE is a set of rules that our suppliers must abide by, but to make them understandable and practical, we need to provide concrete examples and instructions to our suppliers. The Guidelines on Health, Safety and Environment and the Guidelines on Employment Standards were developed to illustrate how the standards should be implemented within a factory. The guidelines also provide our monitoring team with an instrument to determine whether or not a supplier is complying with the SOE.

Guidelines on Health, Safety and Environment

Both auditors and factory management have their own copies of the HSE Guidelines. They are used at all of our factory visits as the reference document during the audit. The guidelines are also

the basis for remedial steps, and the factory management can look up the relevant chapter for guidance on that particular action item. The HSE Guidelines constitute one of the SOE team's most useful instruments; they are a valuable reference guide for us, and an excellent instructional tool for our business partners.

The HSE Guidelines are the result of the numerous HSE audits conducted with external specialists since the beginning of the SOE programme. The guidelines contain comprehensive written instructions, photographs, charts and symbols, and specific examples of both good and bad HSE practices. As a further aid in communication, a Chinese-language version will be made available to suppliers.

The HSE Guidelines are divided into 16 sections as follows.

Management (documentation, records of permits, drills, training exercises)

Architectural considerations (including safety of buildings, roofs and elevators)

Alarm system/emergency/fire

First aid/first aid in factories

Storage of hazardous chemicals

Hazardous chemicals in production (including education in chemical use and the use of personal protective equipment)

Threshold limit values (covering the maximum limits of Volatile Organic Compounds (VOCs) to which workers can be exposed)

Colour coding/labelling (requirements for safety signs)

Standards of Engagement

Authenticity. Inspiration. Commitment. Honesty.

These are some of the core values of the adidas-Salomon Group. We measure ourselves by these values, and we measure our business partners in the same way.

Consistent with these brand values, we expect our partners – contractors, subcontractors, suppliers and others – to conduct themselves with the utmost fairness, honesty and responsibility in all aspects of their business.

The SOE is a tool that helps us choose and retain business partners who follow workplace standards and business practices consistent with our policies and values. As a set of guiding principles, they also help identify potential problems so that we can work with our business partners to address issues of concern as they arise. Business partners will develop and implement action plans for continuous improvement in factory working conditions. Progress against these plans will be monitored by the business partners themselves, our internal monitoring team and external independent monitors.

Specifically, we expect our business partners to operate workplaces where the following standards and practices are followed.

For copies of the SOE and other guidelines visit www.adidas-Salomon.com or email us at sustainability@adidas.de

I GENERAL PRINCIPLE

Business partners shall comply fully with all legal requirements relevant to the conduct of their businesses.

II EMPLOYMENT STANDARDS

We will do business only with partners who treat their employees fairly and legally with regard to wages, benefits, and working conditions. In particular, the following guidelines apply:

FORCED LABOUR: Business partners shall not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee shall be compelled to work through force or intimidation of any form.

CHILD LABOUR: Business partners shall not employ children who are less than 15 years old or who are younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

DISCRIMINATION: While we recognise and respect cultural differences we believe that workers should be employed on the basis of their ability to do the job rather than on the basis of personal characteristics or beliefs. We will seek business partners that share this principle and that do not discriminate in hiring and employment practices on grounds of race, national origin, gender, religion, age, disability, marital status, membership of associations, sexual orientation or political opinion.

WAGES AND BENEFITS: Business partners shall recognise that wages are essential to meeting employees' basic needs and some discretionary payments. In all cases, wages must equal or

exceed the minimum wage or the prevailing industry wage (whichever is higher). Legally mandated benefits shall also be provided. Wages shall be paid directly to the employee in cash, cheque or the equivalent. Information relating to wages shall be provided to employees in a form they understand. Advances and deductions from wages shall be carefully monitored and shall comply with law.

In addition to their compensation for regular working hours, employees shall be compensated for overtime hours at the premium rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding their regular hourly compensation rate.

HOURS OF WORK: Employees shall not be required, except in extraordinary circumstances, to work more than 60 hours per week, including overtime, or the local legal requirement, (whichever is less). Employees shall be allowed at least 24 consecutive hours off within every seven-day period and shall receive paid annual leave.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING: Business partners shall recognise and respect the right of workers to join and organise associations of their own choosing and to bargain collectively. Where the right to freedom of association and collective bargaining is specifically restricted by law, the employer must not obstruct alternative and legal means for independent and free association and bargaining. In any case the employer shall implement systems to ensure good communication with employees.

DISCIPLINARY PRACTICES: Every employee shall

be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

III HEALTH AND SAFETY

A safe and hygienic working environment shall be provided. Occupational health and safety practices that prevent accidents and injury in the course of work or as a result of the operation of employer facilities shall be promoted. This includes protection from fire, accidents and toxic substances. Lighting, heating and ventilation systems should be adequate. Employees should have access at all times to sanitary facilities, which should be adequate and clean. The factory must have health and safety policies that are clearly communicated to the workers. These should apply to employee residential facilities, where provided by employers.

IV ENVIRONMENTAL REQUIREMENTS

Business partners should aim for progressive improvement in their environmental performance, not only in their own operations, but also in their operations with partners, suppliers and subcontractors. This includes: integrating principles of sustainability into business decisions; responsible use of natural resources; adoption of cleaner production and pollution prevention measures; and designing and developing products, materials and technologies according to the principles of sustainability.

V COMMUNITY INVOLVEMENT

We will favour business partners who make efforts to contribute to improving conditions in the countries and communities in which they operate.

OUR SUPPLY CHAIN

NUMBER OF AUDITED FACTORIES AND TOTAL NUMBER OF FACTORIES BY COUNTRY IN 2001

The first number shows the number of factories audited in 2001. The second is the total number of factories in that country in 2001. For example, in 2001 we have audited five of the six factories we have in Australia.

Asia	America	Europe
Australia 5 / 6	Argentina 0 / 9	Albania 2 / 5
Cambodia 3 / 3	Brazil 19 / 25	Austria 0 / 2
China 87 / 113	Canada 9 / 27	Belgium 1 / 1
Hong Kong 3 / 6	Chile 0 / 3	Bosnia 0 / 1
India 2 / 12	Colombia 0 / 5	Bulgaria 10 / 17
Indonesia 28 / 33	Dom Rep 0 / 1	Croatia 0 / 2
Japan 22 / 64	Ecuador 0 / 0	Czech Rep 0 / 2
Korea 18 / 53	El Salvador 5 / 5	Denmark 1 / 1
Lao PDR 3 / 3	Guatemala 3 / 6	Egypt 1 / 1
Macau 2 / 2	Honduras 4 / 5	Estonia 3 / 4
Malaysia 18 / 39	Mexico 17 / 33	Finland 1 / 1
Mauritius 0 / 1	Peru 3 / 7	France 0 / 5
New Zealand 5 / 6	Uruguay 0 / 1	Germany 2 / 10
Pakistan 4 / 5	USA 19 / 84	Greece 7 / 18
Philippines 14 / 23	Total America 79 / 211	Hungary 6 / 8
Singapore 7 / 7		Ireland 1 / 1
Sri Lanka 0 / 3		Israel 3 / 4
Taiwan 22 / 29		Total Europe 118 / 284
Thailand 15 / 28		Total Worldwide 466 / 952
Vietnam 11 / 21		
Total Asia 269 / 457		

NUMBERS OF SUPPLIERS AND OUR OWN FACTORIES

Asia	Suppliers	Own factories
adidas	427	1
Salomon*	8	0
TaylorMade	21	1
America	Suppliers	Own factories
adidas	195	0
Salomon*	0	0
TaylorMade	13	2
Europe	Suppliers	Own factories
adidas	251	1
Salomon*	28	3
TaylorMade	1	0
Total	944	8

* Includes Bonfire and Mavic

AUDITING AND TRAINING

Year	Actual 2000	Target for 2001	Actual 2001
Audits conducted	799	700	839
Training sessions provided	150	200	267

Compressed gas/cylinders (proper storage and use of cylinders)

General equipment/housekeeping/electricity

Machinery

Waste management

Waste water (includes information about the three-step waste water treatment plant)

Emission control (proper extraction of dust and VOCs from air)

Dormitory facilities (laws and regulations relating to issues such as fire safety, sanitation, risk protection and structural safety)

Sanitation and hygiene

Guidelines on Employment Standards

We published our Guidelines on Employment Standards on 1 November 2001, a few months behind the deadline we set in the 2000 report. The employment guidelines reflect the accumulated experience of the SOE team as we continue to audit factories and assist them with the implementation of their labour action plans. The guidelines set out the employment standards, case studies, and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws. Like the HSE guidelines, the employment guidelines are comprehensive, providing a detailed reference tool for both auditors and factory management. The document guides the monitors through the labour audit, and provides factory management with examples of unacceptable, good and best labour practices.

The guidelines are divided into two parts. Part one explains what SOE compliance should mean to our business partners. It sets out the steps that should be taken to incorporate the SOE into business practices. It also explains the legal basis and background of the SOE programme.

Part two explains each of the employment standards, and

includes a pragmatic treatment of SOE compliance in the manufacturing sites.

Employment guidelines training

As with the HSE guidelines, immediately after the employment guidelines were published, the SOE team conducted a series of training sessions to introduce the guidelines to our business partners in Malaysia, China and the Philippines to highlight its uses. The team encourages trainees to look at local problems and explore how they could be solved through the information and case studies set out in the guidelines. The training was fundamental to the process of refining labour training packages, and looking to our business partners for feedback on the usefulness of the guidelines.

AUDITING OUR SUPPLIERS

Rating the SOE performance of factories motivates suppliers to improve and helps us to be sure that we are working with the right factories. In 2001 we focused on auditing and rating our local sourcing suppliers for the first time. Approximately 50% of local suppliers were audited and action plans have been put in place. We also audited almost all the international suppliers we had not visited in 2000, and made repeat visits to some problem factories. The first table on page 24 summarises our auditing in the past two years.

Factory scoring system

One of last year's targets was to implement a new factory scoring system. We have succeeded in formulating the new system, as described here, but data resulting from the new system will only be available in next year's report.

The newly developed SOE scoring system is a software package that provides an effective tool for conducting audits and, at the same time, measures the level of compliance in a

NOTES TO TABLES OVERLEAF

The tables on the next two pages represent the efforts we have made to audit our supply chain. The tables are divided into two categories – international and local sourcing – and split by product – apparel, footwear and accessories. The tables compare how many factories we audited in 2001 to the total number of factories we have in that country, grouping the countries into three regions: Asia, the Americas and Europe*.

In some instances the tables show that we have audited more factories than we now have in a particular country. This is because we have terminated our business relationship with some of the factories, either due to SOE problems or to consolidate our supply chain. For details of the number of factories whose contracts we terminated due to SOE non-compliance, see the table on page 24.

*To reflect the way our SOE teams audit our suppliers, we include South Africa, Egypt, Tunisia, Morocco, Israel, and Syria under Europe in all the tables. For the same reason, Australia, New Zealand and Mauritius are included under Asia.

OUR SUPPLY CHAIN

NUMBER OF FACTORIES AUDITED IN 2001 AND TOTAL NUMBER OF FACTORIES BY COUNTRY AND PRODUCT

International sourcing

	Apparel		Accessories		Footwear	
	Main factories	Subcontractors	Main factories	Subcontractors	Main factories	Subcontractors
Asia						
Australia						
Cambodia	3 / 3					
China	21 / 27	7 / 8	12 / 27	0 / 1	8 / 8	
Hong Kong	2 / 3	1 / 1	0 / 2			
India			0 / 1			
Indonesia	15 / 17	2 / 3	0 / 2		5 / 5	
Japan			3 / 7			
Korea	0 / 1	1 / 2	0 / 4			
Lao PDR	3 / 3					
Macau		2 / 2				
Malaysia	4 / 15	2 / 5	0 / 1			
Mauritius	0 / 1					
New Zealand						
Pakistan			4 / 5			
Philippines	4 / 5		1 / 1			
Singapore	4 / 4	3 / 3				
Sri Lanka			0 / 2			
Taiwan	7 / 7	2 / 5	3 / 5			
Thailand	8 / 19		1 / 1			
Vietnam	1 / 4	2 / 8	1 / 2		6 / 6	
Total Asia	72 / 109	22 / 37	25 / 60	0 / 1	19 / 19	
America						
Argentina						
Brazil	6 / 8					
Canada	1 / 4		2 / 5			
Chile						
Colombia	0 / 1					
Dominican Republic		0 / 1				
Ecuador						
El Salvador	1 / 1	4 / 4				
Guatemala		3 / 6				
Honduras		4 / 5				
Mexico	3 / 3	5 / 11	1 / 7			
Peru	1 / 1	0 / 1				
Uruguay						
USA	14 / 26	2 / 28	3 / 26	0 / 4		
Total America	26 / 44	18 / 56	6 / 38	0 / 4		

Local sourcing

Apparel		Accessories		Footwear	
Main factories	Subcontractors	Main factories	Subcontractors	Main factories	Subcontractors
5 / 6					
17 / 20	12 / 10	10 / 12			
1 / 7		0 / 3		1 / 1	
6 / 6					
7 / 22	8 / 17	3 / 17		1 / 1	
11 / 27		5 / 18		1 / 1	
10 / 16		2 / 2			
4 / 5		1 / 1			
5 / 11		3 / 5		1 / 1	
		0 / 1			
3 / 4	2 / 2	3 / 4		2 / 2	
3 / 4		0 / 1		3 / 3	
1 / 1					
73 / 129	22 / 29	27 / 64		9 / 9	
0 / 2	0 / 1			0 / 6	
5 / 9	0 / 1	1 / 0		7 / 7	
5 / 10	1 / 8				
0 / 1		0 / 1		0 / 1	
0 / 4					
6 / 7	0 / 2	1 / 2		1 / 1	
1 / 5		1 / 0			
0 / 1					
17 / 39	1 / 12	3 / 3		8 / 15	

International sourcing

	Apparel		Accessories		Footwear	
	Main factories	Subcontractors	Main factories	Subcontractors	Main factories	Subcontractors
Europe						
Albania	0 / 2	2 / 2				
Austria			0 / 1			
Belgium						
Bosnia						0 / 1
Bulgaria	0 / 8	10 / 6				
Croatia			0 / 1			0 / 1
Czech Republic			0 / 1			
Denmark						
Egypt						
Estonia						
Finland						
France			0 / 5			
Germany	0 / 2		0 / 5		2 / 3	
Greece	4 / 4	0 / 2				
Hungary				0 / 1		
Ireland	1 / 1					
Israel						
Italy	1 / 4	4 / 12	0 / 8		0 / 1	
Latvia						
Macedonia	0 / 2	3 / 2				
Morocco			1 / 1			
Netherlands			1 / 1	1 / 2		
Portugal	2 / 11	5 / 14				
Romania			2 / 9		1 / 0	
Russia						
Slovenia			0 / 1			
South Africa			0 / 1			
Spain	2 / 3		1 / 2			
Sweden			0 / 1	0 / 1		
Syria						
Tunisia	0 / 3	0 / 14	0 / 1			
Turkey	10 / 10	16 / 26	0 / 1			
Ukraine			0 / 1	2 / 2		
United Kingdom	1 / 5	7 / 7	1 / 1			
Total Europe	21 / 55	47 / 85	6 / 41	3 / 6	3 / 4	0 / 2
Total Asia	72 / 109	22 / 37	25 / 60	0 / 1	19 / 19	
Total America	26 / 44	18 / 56	6 / 38	0 / 4		
Total Europe	21 / 55	47 / 85	6 / 41	3 / 6	3 / 4	0 / 2

Local sourcing

	Apparel		Accessories		Footwear	
	Main factories	Subcontractors	Main factories	Subcontractors	Main factories	Subcontractors
Europe						
Albania	0 / 1					
Austria			0 / 1			
Belgium	1 / 1					
Bosnia						
Bulgaria	0 / 3					
Croatia						
Czech Republic				0 / 1		
Denmark	1 / 1					
Egypt	1 / 1					
Estonia	0 / 4	3 / 0				
Finland	1 / 1					
France						
Germany						
Greece	0 / 12		3 / 0			
Hungary	6 / 7					
Ireland						
Israel	2 / 3		1 / 1			
Italy	1 / 2	4 / 0				
Latvia	0 / 1	1 / 0				
Macedonia	0 / 1					
Morocco						
Netherlands						
Portugal	7 / 1					
Romania						
Russia	0 / 8					0 / 1
Slovenia						
South Africa	0 / 1	0 / 13	0 / 5			0 / 1
Spain			0 / 1			
Sweden	2 / 2					
Syria	1 / 1	0 / 2				
Tunisia						
Turkey	0 / 14		1 / 0	2 / 0		
Ukraine						
United Kingdom						
Total Europe	23 / 65	8 / 15	5 / 8	2 / 1	0 / 2	
Total Asia	73 / 129	22 / 29	27 / 64			9 / 9
Total America	17 / 39	1 / 12	3 / 3			8 / 15
Total Europe	23 / 65	8 / 15	5 / 8	2 / 1	0 / 2	

OUR SUPPLY CHAIN

Audit coverage 2000/2001

International suppliers and subcontractors audited in 2000	374
International suppliers and subcontractors audited in 2001	241
International suppliers and subcontractors audited in 2000 but removed from 'active' supplier list	109
Local sourcing suppliers audited in 2001	186
Local sourcing suppliers not yet audited	206
International suppliers and subcontractors yet to be audited	46

NUMBER OF BUSINESS RELATIONSHIPS TERMINATED DUE TO SOE PROBLEMS

The table below shows the number of suppliers in each region whose business relationships have been terminated, and examples of SOE issues breached.

Asia	No	Examples of reasons for terminations
China	18	Forced labour, child labour, wages and benefits, working hours, disciplinary practices, and various serious health and safety problems
Taiwan	2	Wages and benefits, working hours and various serious health and safety problems
Thailand	1	Very dangerous health and safety problems, for example locked fire exits and overcrowding of production areas
America		
Honduras	2	Wages and benefits, discrimination
Mexico	3	Excessive hours, wages and benefits, various HSE problems
Europe		
Turkey	4	Wages and benefits, various HSE problems
Bulgaria	2	Wages and benefits, various HSE problems

factory in a quick, efficient and objective manner. The system has been developed by the in-house IT department in Hong Kong in conjunction with the SOE team. The main objective of the system is to facilitate the automation of the auditing and rating process. This involves:

- **data management** – the audit report can be uploaded to the servers located in the Americas, Europe and Hong Kong through the internet or local office intranet facility, for central information consolidation
- **reporting format** – various reports can be generated very quickly. These reports show scores, action plan items, and people responsible for the action plan implementation, action plan schedules and deadlines, and FLA reporting requirements (see External independent monitoring and verification below for explanation of FLA activities.)

The HSE audit includes a comprehensive questionnaire, comprising some 400 questions, corresponding to the 16 sections set out in the adidas-Salomon HSE guidelines.

The labour audit document is currently being integrated into the overall scoring system. It contains a number of questions covering the seven employment standards. Each of the standards is subdivided into areas of investigation that require the auditor to inspect documents, interview workers and management, and consult with local union and labour groups. Based on the training that the SOE team is providing on the employment guidelines, factory management will know beforehand what the standards are, and which areas of their business will be rated.

As well as helping the internal SOE team audits, and external audits conducted by independent monitoring groups, one of the objectives of the scoring system is to provide the factories with a tool to rate their own performance on a regular basis. This is part of the process of internalisation of SOE, the underlying theme of the programme.

Internalising the SOE within our sourcing practices

Increasingly, country managers ask the SOE team to carry out a pre-evaluation of potential suppliers before they are taken on. This represents real progress for the Group as it is evidence that the SOE is becoming embedded in normal business practices.

We visit the factory of a potential supplier and audit it against our labour and HSE standards. If the monitor assesses that the factory could meet our standards with some support, then we produce an action plan, and that factory becomes part of our supply chain. However, some potential suppliers may perform so poorly against our standards that they are not taken on.

In 2001, the coverage of the SOE team expanded to include both international and local sourcing, as well as those factories producing exclusively for brands within the Group other than adidas. However, at the same time, the total number of factories producing for the Group as a whole shrank due to various business reasons, such as consolidation of the supplier base, or for poor performance in the SOE and other areas.

External independent monitoring and verification

We recognise that our stakeholders have legitimate concerns about the credibility of our own monitoring programme. Our membership of the FLA provides the framework for the external and independent monitoring of the factories in our supply chain. The FLA is a non-profit organisation made up of NGOs, universities and private corporations. The aim of the FLA is to supervise the independent monitoring of factories that supply member companies, using thorough monitoring procedures, which includes consultation with local NGOs.

Our target for 2001 was to have 10% of our international suppliers monitored by FLA accredited monitors. However, it took time for agreement to be reached between the FLA stakeholders about how to accredit monitors. This delayed the start of FLA monitoring until August 2001. Twelve monitoring organisations were accredited in 2001, including international

SUPPLIER SCORING SYSTEM

Following an audit, each factory is rated and an action plan is written. The five grades of our supplier scoring system are:

- ★☆☆☆☆ There are numerous severe non-compliance issues. The factory has been given notice that business will be terminated unless there is immediate improvement.
- ★★☆☆☆ There are some non-compliance issues and the factory is responding to the action plan slowly or with reluctance. The factory is monitored regularly.
- ★★★☆☆ There are minor non-compliance issues, and the factory is responding to the action plan positively.
- ★★★★☆ Generally there are no non-compliance issues, and there are some best practices in place, confirmed in documentation.
- ★★★★★ There are no non-compliance issues and all of the factory's management system and practices are in place, confirmed in documentation.

NOTE TO THE TABLE OVERLEAF

The tables on the following pages summarise the performance of our suppliers against both our labour standards and our HSE standards. The tables use the supplier scoring system described above to compare performance.

NUMBER OF FACTORIES RATED BY OUR SUPPLIER SCORING SYSTEM BY REGION

International sourcing

Apparel

Labour standards	Asia	America	Europe
☆☆☆☆☆	12	0	0
☆☆☆☆☆	44	2	13
☆☆☆☆☆	70	38	83
☆☆☆☆☆	12	9	4
☆☆☆☆☆	1	0	0
Total audited to date	139	49	100
Total audited in 2001	94	44	68
Total factories in region	146	100	140

HSE standards

☆☆☆☆☆	6	0	2
☆☆☆☆☆	43	0	8
☆☆☆☆☆	62	41	73
☆☆☆☆☆	24	11	24
☆☆☆☆☆	4	0	0
Total audited to date	139	52	107
Total audited in 2001	94	44	68
Total factories in region	146	100	140

Footwear

Labour standards	Asia	America	Europe
☆☆☆☆☆	3	0	0
☆☆☆☆☆	2	0	0
☆☆☆☆☆	8	0	4
☆☆☆☆☆	5	0	1
☆☆☆☆☆	1	0	1
Total audited to date	19	0	6
Total audited in 2001	19	0	3
Total factories in region	19	0	6

HSE standards

☆☆☆☆☆	2	0	0
☆☆☆☆☆	8	0	0
☆☆☆☆☆	7	0	5
☆☆☆☆☆	0	0	0
☆☆☆☆☆	0	0	1
Total audited to date	17	0	6
Total audited in 2001	19	0	3
Total factories in region	19	0	6

Accessories

Labour standards	Asia	America	Europe
☆☆☆☆☆	0	0	0
☆☆☆☆☆	11	0	1
☆☆☆☆☆	25	1	6
☆☆☆☆☆	4	2	5
☆☆☆☆☆	0	0	2
Total audited to date	40	3	14
Total audited in 2001	25	6	9
Total factories in region	61	42	47

HSE standards

☆☆☆☆☆	4	0	0
☆☆☆☆☆	7	0	1
☆☆☆☆☆	23	1	6
☆☆☆☆☆	6	2	4
☆☆☆☆☆	0	0	3
Total audited to date	40	3	14
Total audited in 2001	25	6	9
Total factories in region	61	42	47

Local sourcing

Apparel

Labour standards	Asia	America	Europe
☆☆☆☆☆	3	0	0
☆☆☆☆	53	1	9
☆☆☆☆	53	22	16
☆☆☆☆	4	1	4
☆☆☆☆	0	0	0
Total audited to date	113	24	29
Total audited in 2001	95	18	31
Total factories in region	158	51	80

HSE standards

☆☆☆☆☆	1	0	1
☆☆☆☆	33	2	9
☆☆☆☆	73	21	18
☆☆☆☆	4	1	2
☆☆☆☆	0	0	0
Total audited to date	111	24	30
Total audited in 2001	95	18	31
Total factories in region	158	51	80

Footwear

Labour standards	Asia	America	Europe
☆☆☆☆☆	0	0	0
☆☆☆☆	3	0	0
☆☆☆☆	2	11	0
☆☆☆☆	0	0	1
☆☆☆☆	0	0	0
Total audited to date	5	11	1
Total audited in 2001	9	8	0
Total factories in region	9	15	2

HSE standards

☆☆☆☆☆	0	0	0
☆☆☆☆	3	7	0
☆☆☆☆	0	4	1
☆☆☆☆	0	0	0
☆☆☆☆	0	0	0
Total audited to date	3	11	1
Total audited in 2001	9	8	0
Total factories in region	9	15	2

Accessories

Labour standards	Asia	America	Europe
☆☆☆☆☆	1	0	0
☆☆☆☆	16	1	0
☆☆☆☆	16	3	2
☆☆☆☆	1	0	0
☆☆☆☆	0	0	0
Total audited to date	34	4	2
Total audited in 2001	27	3	7
Total factories in region	64	3	9

HSE standards

☆☆☆☆☆	1	0	0
☆☆☆☆	10	0	2
☆☆☆☆	23	4	0
☆☆☆☆	0	0	0
☆☆☆☆	0	0	0
Total audited to date	34	4	2
Total audited in 2001	27	3	7
Total factories in region	64	3	9

FACTORY MANAGERS HAVE RECOGNISED THE ADVANTAGES OF OUR SOE, INCLUDING BETTER WORKER LOYALTY, EFFICIENCY AND QUALITY

audit companies and national NGOs and several of them were involved in FLA audits of 15 of our suppliers' factories.

Our target remains for 10% of our suppliers producing the adidas brand to be covered by FLA monitors in the first year of monitoring, which will end in July 2002. At that time, we will submit an annual report to the FLA, which will show whether we have met our obligations, for inclusion in a report to be released by the FLA publicly in the third quarter of 2002.

Other external independent monitoring was conducted during 2001. Child labour inspection and monitoring programmes were run in Pakistan and India, as mentioned in the stakeholders chapter. Similarly, in Cambodia, labour monitoring has been conducted by the ILO as part of Cambodia's trade agreement with the United States.

COUNTRY PROGRAMME PROFILES

Our SOE (see page 19) includes employment standards that address seven issues. These are: forced labour; child labour; discrimination; wages and benefits; hours of work; rights of association and disciplinary practices. Below are three country case studies – from Turkey, Mexico and China – that show how our SOE team is helping our suppliers tackle these issues. These countries were chosen as our main sourcing countries in Europe, the Americas and Asia respectively. The high number of suppliers in each country means that there are also significant SOE issues to be resolved. The following profiles are reports from our regional SOE management teams.

From our European team: Turkey

In Europe, Turkey is one of the most important sourcing countries for adidas-Salomon. Thirty factories work on our products, mainly knitted garments, such as T-shirts and sweatshirts.

We work closely with our suppliers and subcontractors to ensure that our SOE is met, to improve working conditions, and to establish safe and healthy workplaces with good social conditions.

Our Guidelines on Health, Safety and Environment give practical ideas to our suppliers in Turkey to help them manage the process of continuous improvement in collaboration with people from our team. We also train staff – including factory management and others responsible for implementing our SOE – in labour and HSE issues.

Factory managers have recognised the advantages of our SOE, including better worker loyalty, efficiency and quality, so they have discussed problems more openly.

Some factories received more orders from adidas-Salomon once their conditions improved, others gained new customers because of good labour and HSE conditions.

Feedback from workers The following are quotes from workers in Turkey who have been asked, 'Have you seen any differences at your factory since we have started working on the SOE programme?'

- 'We used to work many hours overtime and many Sundays, but our supervisor was still not satisfied with our performance and in fact we never got any overtime payment in the past. Meanwhile we now receive correct overtime payments and even payslips. Additionally, overtime has decreased and we don't work on Sundays anymore.'
- 'I used to work the same amount of overtime as other workers, although I'm just 17 years old. In the past nobody seemed to care that there are specific protective laws for juvenile workers like me. Now I'm not working overtime anymore and they ensure that I'm medically checked on a regular basis.'

- ‘As you can see, I’m disabled and even though I tried for a long time, I couldn’t find a reasonable job. When the unemployment office sent me to this factory and they decided to employ me, it surprised me very much, but after a while I understood that because of your Standards of Engagement I have found this job.’
- ‘I like very much the suggestion box, which had been provided and explained after one of your visits. It is a good opportunity for us to let the management know what we think, what we like and what we don’t like, and the best thing is they really read it.’

Feedback from factory managers The following are quotes from factory managers, who have been asked ‘Does our SOE make you feel like better managers?’

- ‘When you explained the Standards of Engagement the first time and conducted your first audit in my factory, I realised that I was very much involved in production issues, but neglected other areas. I never thought of a company policy or how supervisors and our doctor treated our workers. I did not talk to any of the workers or have lunch with them, which I now do regularly in order to keep contact with them. You really opened my eyes.’

- ‘When you came the first time we were very confident that everything would be OK since we had been working for a while already with adidas. Therefore, we thought you exaggerated when you discussed the action plan with us, and points that needed to be improved. You gave us a hard time at the beginning but then we realised the advantages for us and now I’m proud to be in compliance with your Standards of Engagement.’
- ‘Since we have suggestion boxes in place I have much more contact to workers and I look forward to collecting and reading their letters. I really don’t know why I never asked them for their opinions before. Sometimes they really do have good ideas’.

Major SOE non-compliance issues Despite the positive responses to our SOE outlined above, there are still many instances where factories have not complied with the standards or with HSE rules. These instances are given below.

- Under 18-rights ignored (annual leave, regular and documented medical checks, limited working hours).
- High overtime, involuntary overtime, Sunday work.
- Social security payments embezzled (health insurance, retirement fund, accident insurance etc).

- Incorrect overtime payments.
- Factories with more than 50 employees do not meet the local law, which states they should provide 3% of their workplaces to disabled persons and former prisoners.
- Job application forms and advertisements include personal questions such as association membership, marital status, parental status, age and so on.
- Annual leave is paid in lieu and workers are unable to take off all the days owed to them, or they are not allowed to take their whole vacation, which does not meet legal requirements.
- Lack of communication systems between management and workers.
- Inadequate disciplinary practices.
- Poor first-aid training.
- Inadequate ventilation, heating and cooling systems.

From our Americas team: Mexico

The Mexico supply chain is made up of 25 manufacturers, producing apparel, accessories and footwear to the adidas-Salomon export and local markets. They include 19 apparel suppliers (12 for export, seven for local market), five accessories producers (four for local market, one for export), and one footwear supplier (for the local market). Twenty-one suppliers

‘SINCE WE HAVE SUGGESTION BOXES IN PLACE I HAVE MUCH MORE CONTACT TO WORKERS AND I LOOK FORWARD TO COLLECTING AND READING THEIR LETTERS. I REALLY DON’T KNOW WHY I NEVER ASKED THEM FOR THEIR OPINIONS BEFORE’

ALTHOUGH MANY OF THE FACTORIES HAVE UNIONS, COMMUNICATION BETWEEN WORKERS AND MANAGEMENT IS NOT EFFICIENT

produce for the adidas brand, one for TaylorMade, and three for licensees. The products include knit textiles, knitted and woven apparel, athletic footwear, equipment bags, soccer balls, and golf club components.

Mexico's proximity to the United States, participation in NAFTA, solid economic growth, and an extensive maquila sewing industry makes the country an important supplier to the Americas. Future economic trends include the development of a more value-added manufacturing sector, a result of which might be the immigration of many maquila programmes to Central America. The events of September 11 escalated a loss of jobs in the industrial sewing sector that is projected to reach 70,000 by the end of 2001.

Non-compliance with labour standards in Mexico includes freedom of association and collective bargaining, discrimination, wages and benefits, and disciplinary practices. Although many of the factories have unions, communication between workers and management is not efficient.

Training programmes for developing employee and management groups and communication awareness are being implemented. Discrimination against women and trade union members has been addressed with supplier training programmes that define objective and fair hiring practices. The internal

monitoring team is focused on supplier compliance with the federal professional minimum wage laws for sewers and other technical workers. Many suppliers have improved disciplinary practices to include clear expectations of workplace comportment and transparent documentation of disciplinary actions.

Non-compliance with HSE standards include chemical management, waste management, fire safety, equipment safety, housekeeping, and recycling.

Training in the safe use and handling of chemicals including personal protective equipment, availability of material safety data sheets and chemical safety data sheets documentation, and reducing threshold limit values have been implemented with suppliers. Suppliers are developing recycling programs and energy conservation initiatives. Safety devices on machinery including needle guards, lockouts and electrical wiring are being brought up to local code and SOE benchmarks. Fire safety awareness has been increased especially for emergency preparation, exits and signage.

The regional SOE team will focus on increasing training programmes and education in 2002 rather than a dedicated monitoring methodology. Outreach to local government agencies, trade unions and advocacy groups will continue, especially for labour employment compliance. Partnerships with

a select group of suppliers developing worker management communication groups have been successful and will be expanded in 2002. Similar partnerships to develop formal, factory-managed compliance programmes are proceeding.'

Case study: improving SOE compliance in Baja California Sur

During the last 18 months, the regional SOE team has been working with an accessory supplier in the state of Baja California Sur, Mexico, to improve overall SOE compliance. The team audited for SOE compliance, evaluated the findings, and developed focused action plans with supplier management. HSE standards were used as benchmarks to improve the electrical systems, lighting, ventilation, machinery guarding, and emergency evacuation programs. Labour action plans included the elimination of excessive overtime and implementing adherence to a maximum 60-hour working week, the payment of the professional minimum wage to experienced sewers by establishing qualitative performance evaluations of workers, and building effective communication channels between management, the workers and the workers trade union representatives.

The action plans were developed by identifying what options existed to improve the non-compliant findings. In some cases,

third-party technical advisers were needed to implement the improvements (HSE, architectural, electrical). In other action points, the team gave supplier management training (effective management-worker communications, developing progressive disciplinary policies and relevant documentation). In still others, the team developed cost-benefit scenarios to implement improvements (reduced worker turnover, higher quality performance, energy conservation savings). One measure that helped improve worker-management communications was to change the scheduled time for meetings between the factory workers and their trade union representatives. The regular meetings had been held after working hours, a time when many workers were not available to take part. After the meeting time was changed to 9.00am, many more workers were able to participate.

In this example, the development and growth of the action plans could not have been successful without the active participation of factory management. The management made an ongoing commitment to improving working conditions by investing money, time and personnel. The changes have been gradual and consistent but there is still a long way to go to achieve best practice and continuous improvement benchmarks. The regional SOE team and supplier management continue negotiating the acceptable levels of improvement.

In general, Mexican supplier compliance is improving. Many owners and managers are aware of the global competition from Asia, so there is a growing trend to adopt factory-based compliance programmes that coordinate with customer programmes and increase desirability to potential customers. National enforcement agencies are more active in monitoring oversight, but improvement is still needed. Independent trade unions are gaining influence in a system dominated by political

affiliation. Under-achieving and poor performing suppliers are being dropped from the supply chain and new suppliers are evaluated for adherence to world-class compliance and manufacturing principles.'

From our Asia team: China

A considerable percentage of adidas-Salomon's world-wide production is sourced in the People's Republic of China. Approximately 100 factories are contracted to produce apparel, footwear, accessories items and hard goods, both for a growing local market and for international export. The largest concentration of these factories is in Guangdong Province in Southern China, across the border from Hong Kong. Other factories are located along the east coast of China in Fujian and Shanghai, in and around the industrial districts of Jiangsu Province and Zhejiang Province on the outskirts of Shanghai, and further north in the provinces of Shandong and Liaoning.

As the world's most populous country, and as a developing nation, China presents a number of unique challenges in achieving social and environmental compliance under the SOE. Issues include the following.

Legal framework Despite a well-developed regulatory framework for labour relations and workplace health and safety, government enforcement needs strengthening and legislation is subject to interpretation by local officials.

Excessive working hours Excellent progress has been made by our footwear suppliers in reducing working hours to the targeted 60 hours per week. However, within the apparel sector, excessive working hours remains a problem. During peak production, factories commonly exceed the statutory overtime

THE REGULAR MEETINGS HAD BEEN HELD AFTER WORKING HOURS, A TIME WHEN MANY WORKERS WERE NOT AVAILABLE TO TAKE PART. AFTER THE MEETING TIME WAS CHANGED TO 9.00AM, MANY MORE WORKERS WERE ABLE TO PARTICIPATE

WEEKLY OR MONTHLY MEETINGS BETWEEN MANAGEMENT AND PRODUCTION LINE EMPLOYEES HAVE BEEN SCHEDULED TO PROMOTE OPPORTUNITIES TO DISCUSS MANAGEMENT-WORKER RELATIONS, WORKPLACE CONDITIONS AND PRODUCTION PROCESSES

limits and encroach on workers' mandatory weekly rest day, often with the cooperation of the workers and the sanction of the local labour bureau.

The SOE team has sought to understand the root causes of excessive overtime in China, which is endemic in the industry. It is clear that there are no quick fixes. Surveys conducted in 2000 and 2001 reveal a complex interplay of factors. Late delivery or rejection of materials and other supplies and poor production planning are recurrent problems. In an effort to improve transparency, overtime and rest day swap forms have been introduced. These require the factory to detail the special circumstances that require them to extend working hours or to swap rest days with regular workdays. Lean manufacturing and cross-training programmes are being developed within the factories to help suppliers increase their productivity, thereby reducing the need for excessive overtime.

As working hours have come under increased scrutiny, some factories have sought to hide their excessive overtime by falsifying time records, for example by using two sets of time cards. Such factories risk cancellation of orders and termination of the manufacturing agreement with adidas-Salomon.

Minimum pay levels Another common non-compliance, in particular among the garment factories, is the failure to pay workers the correct minimum wage or the correct overtime premiums. There are many reasons for this: poor record keeping with respect to working hours; accounting or payroll errors; and poor communication with workers regarding their rights and entitlements. Where there is clear evidence of incorrect payment by a supplier, the SOE team will require wage adjustments for workers, including any necessary back-payments. The SOE and employment guidelines provide guidance to the factories on

transparency in wage setting and payments. Basic steps include the introduction of electronic payroll systems, the development of easy to understand pay-slips, and worker education on minimum wage levels, pay rates and benefits.

Freedom of association and collective bargaining The 1992 Trade Union Law prevents the establishment of trade unions that are independent of government and requires membership to a single organisation, the All China Federation of Trade Unions (ACFTU). The ACFTU affiliates can be found in foreign enterprises across China, but often operate as little more than social or cultural clubs. Therefore, although unions do exist, they do not always safeguard workers' interests.

As a result, because of the legal restrictions in China on freedom of association and collective bargaining, under the SOE factory management is required to implement effective systems to ensure good communication with employees. A number of factories have adopted leadership roles in this area, establishing worker counselling centres, and appeal and grievance systems for workers at all levels within the factory. Weekly or monthly meetings between management and production line employees have been scheduled to promote opportunities to discuss management-worker relations, workplace conditions and production processes.

One footwear factory in China continues to run a training programme for workers in the area of health and safety to support the efforts of a newly formed occupational health and safety workers' committee. Such committees act as an alternative and legal means for workers to raise any workplace problems independently with the management. Additionally, the committees act as a training ground for workers, allowing them to develop communication and negotiation skills and a deeper understanding of the local labour and health and safety laws.

During 2002, the SOE team will support a number of factories that have decided to establish legal union activity, within the framework of the Trade Union Law, based on the independent selection of worker representatives by their colleagues.

PROJECT EXAMPLES

The two projects below are examples of steps we have taken to make sure that our health, safety and employment standards are in place in our suppliers' factories.

Cross-training project, China

The concept of a cross-training project for workers and supervisors on the factory floor was developed with two key factory partners in the south of China. The initial stages of the project involved short-term training of more than 600 workers to do other jobs within their own departments. For example, on an assembly line, the person who fits the 'last' (the mould inside the shoe that retains the shape of the shoe while it is being assembled) might be trained to buff and clean the final product before it is packaged.

Some workers were specially chosen by the factory to take part, and others signed-up on a voluntary basis after general

information was provided to the workforce. The cross-training was carried out both during normal work hours and overtime on the weekends. All workers were paid for attending, which supplemented their usual incomes.

The project is still in progress. The ultimate objective is to cross-train the majority of production line employees to perform any type of basic job category in any production department.

SOE advantages There are SOE advantages to this type of project. Some examples are set out below:

- juvenile workers who are not allowed to work in dangerous areas, be exposed to hazardous chemicals, or work overtime and night shifts can be trained and relocated to safe areas in the factory.
- in relation to work hours, those workers who volunteer to do overtime during busy periods can fill in for workers who are unable or unwilling to work overtime. This is not currently possible because not all workers can do different types of jobs within the factory.
- similarly, the factory will be able to allow employees to use all their leaves, such as annual leave, sick leave, maternity leave, marriage leave while other workers cover for them. Currently,

leave is rarely requested by workers, and often not granted at all, because factories find it difficult to replace workers during busy periods.

There are also overall business and production advantages to the cross-training. These include a more stable workforce, improved productivity and reduced turnover, greater flexibility to meet the changes in production, the development of human resources in relation to career planning and salary increases, and an enhancement of workers' self-confidence and motivation.

The project has resulted in some complications. For example, there has been an increase in overtime for the employees taking part and it is difficult for the factory to work out the additional cost in the short-term. Some supervisors have not fully appreciated the aims of the project or were not sufficiently trained themselves to oversee the training of other workers. Additionally there were some resources problems on some lines, for example insufficient materials or machinery on which workers could practise the new skills. One of the most interesting and disturbing findings in the two participating factories was that the turnover rate of workers in the project

THERE ARE OVERALL BUSINESS AND PRODUCTION ADVANTAGES TO THE CROSS-TRAINING. THESE INCLUDE A MORE STABLE WORKFORCE, IMPROVED PRODUCTIVITY AND REDUCED TURNOVER, GREATER FLEXIBILITY TO MEET THE CHANGES IN PRODUCTION, THE DEVELOPMENT OF HUMAN RESOURCES IN RELATION TO CAREER PLANNING AND SALARY INCREASES, AND AN ENHANCEMENT OF WORKERS' SELF-CONFIDENCE AND MOTIVATION

'AS WORKERS WERE CROSS-TRAINED, IT BECAME EASIER FOR THEM TO FIND OUT ANY QUALITY PROBLEMS CAUSED BY THE OTHER PRODUCTION PROCESSES, AND THEN THEY CAN STOP AT THAT POINT RATHER THAN CONTINUE THE PRODUCTION'

was 2.48% and 10% while the turnover rate of workers in regular production was 2% and 3.4% respectively. This will need to be investigated further to determine the causes.

Feedback from supervisors

- 'It can help a lot with the manpower arrangement. In the past, if someone left or asked for sick leave or home leave, we had great difficulty to find someone else to fill his position. But now it is much easier.'
- 'At the beginning, the number of participants was so large that the quality of training was affected. Later we cut it to a limit and it was OK.'
- 'Through cross-training we can have better arrangements for the production workers, so that workers can ask for leave much easier and they will be very happy. As a result, they will work harder when they come back.'
- 'As workers were cross-trained, it became easier for them to find out any quality problems caused by the other production processes, and then they can stop at that point rather than continue the production. As a result, the waste of time and material are reduced.'
- 'In high season it will affect production. But it can still be done as long as the training period is longer and the number of participants is limited.'
- 'Workers work harder than before and the quality has improved.'
- 'Trainers will improve their teaching methods.'
- 'There was no complaint from workers that their income dropped due to the training.'
- 'The communication with the SOE team and management was good.'
- 'I would love to be cross-trained myself.'

Feedback from workers

- 'Everyone wants to learn.'
- 'Everyone should have the chance to participate.'
- 'Supervisors were ready to help.'
- 'After three months of training, I'm now able to do the production. It is no problem.'
- 'It is easier for me to find out quality problem as I know more about shoe-making now.'
- 'It is meaningless that I learned something new but I have to go back to my old position, as I have no chance to practice. I should stay at the new position.'
- 'The material is not enough for practice. And it is so boring and frustrating to work with the substitute. But if I can practise with the real thing, I can learn faster.'
- 'It is good and it should be continued.'
- 'The skill is like riding a bicycle. Once I learned, I'll never forget it. So even without the rotation, I can still work at the new position in the future. The only problem is maybe I need some time to get used to it again.'
- 'Income was not affected.'

Needle guard project

Over the last year, we studied and surveyed various types of sewing needle guards being used in the factories making adidas bags, gloves, apparel and shoes. The guards prevent broken needles flying in the faces of sewers and helps protect their fingers. We carried out work and time studies in the factories to assess the practical uses of safety guards on sewing machines, and discovered they are easy to make and install on existing machines. We decided to shoot a video that would serve as a training aid to promote the use of needle guards by all our suppliers.

MANY PARTICIPANTS ASKED FOR A COPY OF THE VIDEO TO HELP THEM INSTALL NEEDLE GUARDS IN THEIR FACTORIES. THEY COULD SEE THE BENEFITS OF THE GUARDS AND HOW EASILY THEY CAN BE CUSTOMISED FOR DIFFERENT MACHINES

Feedback from management (before the study)

- ‘Safety guards would impede the sewing process and therefore production rates would be affected.’
- ‘Workers refuse to use the sewing needle guards; they complain that the needle guards slow down their work.’
- ‘The standard needle guards are not suitable for use; they get in the way.’

Feedback from workers (before the guards were installed)

- ‘We depend very much on our eyes and hands to sew the bags. We are afraid of being pierced by the needles, because it would slow down the work.’
- ‘I am not afraid of the pain caused by a sewing needle. I am afraid of hurting my fingers and losing my job because I’m not able to meet the production rate.’
- ‘Accidents, like sewing needle cuts to the finger, happen when we rush our work for shipment.’

We selected three factories, two in Vietnam – making shoes and bags respectively – and one in Thailand making bags. They provided fine examples of factories successfully installing

safety guards on 100% of the sewing machines. The feedback from workers and management in these facilities was very positive. They explained to us that production rates were not affected, and accident rates, ie needle injuries, had dropped from 25% to zero annually. Most importantly, workers were happy knowing that they could work free of the fear of injury. All of this was captured on video through interviews, factory walk-throughs and needle guard-making demonstrations. In one segment of the video we showed how quickly and easily a needle guard can be made using the metal spoke from a bike wheel which can be bought in any local hardware shop.

During our training workshops in Penang, the south of China and Manila we showed the factory participants an unedited version of our video, so that we could see whether it gave them any practical ideas. Many participants asked for a copy of the video to help them install needle guards in their factories. They could see the benefits of the guards and how easily they can be customised for different machines. Equally, it was clear from the video that they are inexpensive to make and can be fabricated by any in-house technician. The video clearly demonstrated that needle guards are simple and they work.

CLOSER

OUR ENVIRONMENTAL IMPACTS To build a clear picture of the environmental performance of a business, you must be able to measure your impacts effectively. In 2001, we made significant steps towards minimising the environmental cost of making our products. We also moved closer towards developing an accurate system of measurement. This will be crucial in helping us continue to improve our environmental performance.



In the 2000 social and environmental report we set out the environmental impacts of our products along their entire life cycle and outlined targets to reduce those impacts. In this section, we give an update on progress towards meeting those targets.

PROGRESS ON POLICIES AND INITIATIVES

At most stages we are in control of the impacts, but not during production, where we can only influence how our suppliers act. In last year's report, we highlighted the initiatives that seek to help our suppliers improve the environmental performance of their operations and our products. We also outlined the next steps we needed to take in 2001 to head towards our long-term goal of becoming a sustainable company. In our own factories we of course have control of the impact during production. We can also improve our environmental impact by selecting appropriate material in the product design process.

Eliminating PVC

Our policy is to eliminate PVC-containing materials from products by the end of 2002, except for products where appropriate alternatives do not exist such as for ski boots and a few high-performance sports equipment products. This policy was made as a result of carrying out an environmental impact analysis of PVC and suggestions from our stakeholders. We also reviewed the environmental impact of the alternatives to PVC.

Since none of the PVC-replacement materials are as versatile as PVC, it is impossible to replace PVC with one single compound. We are therefore working with a variety of different materials to replace PVC.

Most of the PVC materials that were used in shoes or apparel can be replaced by polyurethane (PU) materials and to a limited extent by thermoplastic olefins or thermoplastic ethylene. PVC

foams can be replaced with polyethylene foams, EVA and PU foams, depending on the application. For decorative parts, we use a wide array of materials including silicones, thermoplastic rubbers and thermoplastic polyurethane.

Footwear We have developed PVC replacements for all shoe applications: bottom components, uppers, linings and decorative parts have all been replaced with a variety of new materials. Our 2002 footwear will be more than 95% PVC-free.

New models that still contain PVC parts are in ranges where there was not enough time to test replacement materials. This is mainly the case for the Nordic and Snowboard ranges. Following extensive tests on possible replacement materials in the winter of 2001/2002, we expect that the 2003 models will be 100% PVC-free.

Apparel The apparel ranges launched from 2002 onwards will be PVC-free with the exception of certain styles that use special multicolour prints for which a special PVC backing is necessary. We are currently investigating technical solutions to avoid PVC in these applications.

Accessories By the beginning of 2002, adidas balls, shinguards, bags and accessories will be PVC-free. Most Salomon bags, gloves and protective gear will be PVC-free by the end of 2002. Our target is to find alternative materials in order to be completely PVC free by 2003.

Controlling and monitoring hazardous or restricted substances

Restricted substances cause harm or are suspected of harming

human health or the environment. There are two types of restricted substances: legally restricted substances and voluntarily restricted substances.

The use of some substances in sports footwear, apparel or accessories end products (or the materials and components in those end products) is limited, restricted or prohibited by law. Other substances are not covered by the law but are often restricted voluntarily, either by best practice in the sporting goods industry itself, testing institutes, or eco-label schemes (for example, the European Union voluntary eco-label criteria for footwear and apparel).

adidas-Salomon has further updated and extended its existing policies and internal procedures for control and monitoring of restricted substances to ensure that products are environmentally safe. We inform our material suppliers regularly about new scientific findings and developments.

All our material suppliers confirm they meet our standards. Suppliers for footwear and accessories have to submit test reports for all materials. These tests are carried out by external testing institutes. Development and production samples are checked randomly.

Restricted substances covered by our internal monitoring procedures include:

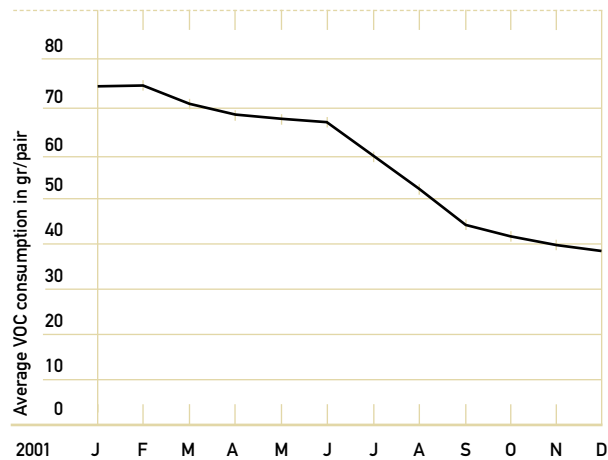
- heavy metals like arsenic, antimony, cadmium, chrome VI, lead, copper, nickel, cobalt
- pentachlorophenole, stri-and tetrachlorphenoles
- pesticides

Total number of adidas products made 1999–2001*

	2001	2000	1999
Footwear (millions of pairs)	81.6	91.7	82.7
Apparel (millions of units)	125.6	122.9	117.8
Accessories (millions of units)	17.9	18.9	16.0

* International range excluding Salomon, TaylorMade and Mavic sports equipment

Evolution of solvent content use per month in China, Indonesia and Vietnam



Total number of Salomon products made 1999–2001

millions of units	2001	2000	1999
Snowboard			
Board	0.13	0.13	0.13
Binding	0.12	0.12	0.13
Alpine			
Ski	0.83	0.77	0.69
Binding	1.30	1.20	1.28
Boots (pairs)	1.1	1.0	0.88
Cross-country			
Binding	0.80	0.86	0.80
Boots (pairs)	0.38	0.45	0.52
Tec hiking			
Boots	0.20	0.38	0.28
Inline skates			
ILS (pairs)	0.62	0.78	0.36

Freight types used to ship adidas products*

% of product shipped	2001	2000	1999	1998
Footwear				
Truck	3	3	3	3
Sea freight	96	94	95	95
Air freight	1	1	1	2
Sea and air freight	0	1	1	0
Apparel				
Truck	32	26	23	29
Sea freight	64	63	70	67
Air freight	4	9	6	3
Sea and air freight	0	2	1	1
Accessories and gear				
Truck	5	8	12	12
Sea freight	92	89	85	84
Air freight	3	3	3	4
Sea and air freight	0	0	0	0

* Freight types used to ship adidas products expressed as a percentage of the total product shipped

- specific azo-dyestuffs
- ozone-depleting substances
- formaldehyde
- vinylchloride (monomere)
- polychlorinated biphenyls
- allergic dispers dyes
- chlororganic carrier
- tin-organic compounds
- phthalates
- flame retardants.

Helping suppliers reduce their impacts

We help our suppliers use resources efficiently and improve the environmental performance of our products. In 2000 we produced HSE guidelines for our suppliers. These include environmental basics such as handling toxic chemicals and emission control.

We also recognised that our suppliers need more detail about environmental best practice, and committed to producing a separate manual – the Guide to Best Environmental Practice. We did not publish it in 2001 as intended, but it will be ready in early 2002.

The guide aims to help our suppliers meet the environmental requirements of our SOE by helping them move beyond regulatory compliance. It shows how many businesses have saved money by using energy efficiently, reducing waste and preventing pollution. In short, these measures are both good for the environment and good for business.

The user-friendly guide contains suggestions and case studies to help our suppliers become more environmentally sustainable.

Recording the environmental impact of footwear factories

Footwear manufacturing plays a prominent role in the entire footwear creation process, and it has a significant impact on the environment.

To be able to measure, analyse and evaluate the entire environmental impact of our global footwear business, we have

to record data from footwear manufacturing. Therefore, we have asked our international suppliers to help collect specific information from their factories and submit the figures to us.

The data we are collecting covers the use of raw material, energy and water as well as output data such as production volumes and the generation of waste and waste water. Our target is to develop an accurate data set for analysis, so we can identify the starting points for savings.

With this data we intend to show the environmental impact of adidas-Salomon footwear manufacturing processes over 2000 and 2001 and to identify important trends. Working with our suppliers, we will then set targets for reducing our impacts.

Pilot study on energy management This project has been piloted in China and aims to make sure our footwear factories use energy in the most efficient way possible. By identifying and minimising waste energy through energy audits, we can reduce costs and also set best performance benchmarks.

The project is divided into two phases. First we analyse historical data and visit the sites to calculate the building energy indexes for all the buildings. Second, we measure the actual energy use for six months. By the end of 2001 we had completed phase one. In mid-January 2002 we presented initial findings to factory managers, and had ensured that they had the equipment needed to measure energy use for phase two.

Reducing VOCs in footwear factories

Volatile organic compounds (VOCs) are solvents used to dissolve products that will be applied as a layer: paints, cements, glues and so on. Different types of solvents can be used to dissolve a product and all have different levels of toxicity. These solvents can cause breathing problems along with other health complaints.

Solvents are used at various stages in the shoe manufacturing process. The HSE guidelines set out adidas-Salomon's standards regarding the use of solvents and the exposure limits that should be observed in the workers' environment.

Our policy is to reduce the use of solvents while keeping high-quality standards and performance targets.

During 2001, we continued our successful relationship with our nominated suppliers, identifying production elements that created the highest amount of VOCs and developing methods to reduce their use. These elements include:

- primers used in stockfitting and assembly
- cements used in lamination facilities (for example, PU foam lamination and sockliners)
- earlier processes (for example, mould release application on outsole pressing).

For each application a Best Practice Manufacturing Services Manual has been written. Each manual describes the research, history, trials description, process proposal, health and safety concerns and the VOC reduction.

The graph below shows how we reduced solvent use for our three major producing countries (China, Indonesia, and Vietnam) in 2000 and 2001. During 2000, solvent consumption in our shoe manufacturing was reduced from around 140 grams per pair to around 80 grams per pair. During 2001, our target was to reach a level of 50 grams per pair. We exceeded this target and brought solvent use down to less than 40 grams per pair in 2001.

Our target is to keep on reducing solvent use and achieve a solvent level close to 25 grams per pair by the end of 2002.

Monitoring VOC levels in the air We carried out detailed monitoring of airborne VOCs in two factories in Asia. The measurements were recorded using sampling badges placed near the breathing zone of people exposed to potentially hazardous organic vapour. The analytical analysis was carried out in a certified laboratory in the US.

We took air samples in environments where the type of activity meant that the risk of exposure to VOCs in the factory was at its highest. These activities are solvent-based priming in stockfitting and assembly, solvent-based cementing in stockfitting and assembly, water-based cementing in stockfitting

and assembly, solvent-based cementing in stitching, chemical mixing, spray painting and silk printing.

The results from all the monitoring indicated that the VOC level in the air at the factory was well below international limits.

Reducing the impact of transporting our products

The fuel used to transport goods from the countries of origin to the selling markets creates carbon dioxide (CO₂) emissions: a major contributor to climate change. Our policy is to minimise the environmental impact caused by transporting goods. Air freight creates the most CO₂ emissions, so we have a target to reduce shipments of products by air freight to below the 1998 level.

In 2001, for footwear and accessories the levels for air freight achieved or fell below the 1998 levels. Air freight shipments for apparel were reduced from 9% in 2000 to 4% in 2001, close to the 1998 level of 3%. One of the reasons for this has been improved production and order planning.

Improving the environmental performance of our own sites

adidas-Salomon has a number of mainly administrative offices in several countries in addition to our own factories. Although the environmental impact of these sites is not significant, the site managers can access the HSE guidelines through our company Intranet and are responsible for applying them, taking into account specific regional conditions.

Scheinfeld Environmental Management System revalidation

In July 2001 adidas Scheinfeld, the only sports footwear and ball factory still owned directly by adidas-Salomon AG, was

successfully revalidated under the Eco Audit Regulation (EMAS II), along with the test centre, training centre and export/shipping operations also based there.

The Scheinfeld Environmental Statement 2001 contains evidence of our achievements in matters relating to the environment over the last three years. As well as quantitative information regarding the environmental impact of the company's activities at Scheinfeld, specific programmes are cited that are directed at further improving our future environmental performance.

In addition, information is provided for the first time about indirect environmental impact, for example, environmental effects that are a consequence of our international sourcing of raw materials and primary products.

As independent manufacturers produce most of adidas-Salomon's products we have less control over environmental performance in the operations of our suppliers than we do in our own production centres. It is therefore important for us to support our suppliers with case studies and by passing on any valuable experience of our own so that they can manage and organise their production plants to lessen their impacts.

The management systems and measures successfully integrated into the Global Technology Centre in Scheinfeld are therefore intended to guide our suppliers towards making their business activities more sustainable.

We have taken steps to achieve our environmental goals and to further improve the environmental performance in the Global Technology Centre, including:

- installing a power-load management system

- implementing new lighting
- developing a programme to use energy for heating more efficiently
- installing a waste-management system.

In addition to these measures, the existing system for generating environmental metrics has been improved to better determine and evaluate the environmental impact of operations at this site.

The Scheinfeld Environmental Statement is available at www.adidas-Salomon.com

International standards

We actively encourage our suppliers to put in place formal HSE systems to manage their operations. A number are currently pursuing independent assessment and certification under the following programmes: Occupational Health and Safety Management System, OHSAS 18000; and International Standards Organisation, ISO14000.

adidas (Suzhou) Co Ltd, our joint venture partner in China, has engaged consultants to help it implement an environmental management system (EMS). The aim is to obtain ISO14001 certification by the end of 2002. The Suzhou factory will be used as a 'model facility' to share the ISO14000 EMS approach, procedures and systems with other apparel suppliers in China. Additionally, two key footwear suppliers in Vietnam have both been certified under ISO14000 and one of them has also achieved OHSAS 18000 certification. These facilities will also be used as models for other suppliers in the region.

IN 2001, FOR FOOTWEAR AND ACCESSORIES THE LEVELS FOR AIR FREIGHT ACHIEVED OR FELL BELOW THE 1998 LEVELS. AIR FREIGHT SHIPMENTS FOR APPAREL WERE REDUCED FROM 9% IN 2000 TO 4% IN 2001, CLOSE TO THE 1998 LEVEL OF 3%

FURTHER

THE ROAD MAP This is a quick-reference visual summary of our social and environmental performance. The diagrams over the next few pages demonstrate how far we have progressed along the road to sustainability compared with last year, and outline our main plans for the future.



PAGE 44

The journey (below) shows the five inter-linked roads on the journey to sustainability and strong governance. The runners in outline show the point we started from last year, while the solid runners show how far we have progressed since then.

PAGE 45

Progress against targets (opposite) summarises all the targets we set for 2001. We estimate how much of each target we have met, make any relevant notes, and refer to the page or pages in this report where you can find more detailed information about the topic.

PAGE 46

Next steps sets out our key targets for 2002.

THE JOURNEY

Environment

- 1 Negative screening of environmentally unfriendly product materials
- 2 Positive selection of environmentally friendlier materials
- 3 Full life-cycle assessment of product materials



Sustainability and self-governance

Management

- 1 Define standards
- 2 Establish internal auditing systems
- 3 Full social and environmental reporting
- 4 Integrate social, environmental and economic aspects



Suppliers

- 1 Stakeholder dialogue and consultation
- 2 Stakeholder assurance
- 3 Form alliances with different stakeholder groups, including suppliers
- 4 Suppliers initiate partnerships with different stakeholder groups



Economic

- 1 Reacting to business risks
- 2 Positively managing business risks
- 3 Increased value



The company

- 1 To be the global leader in the sporting goods industry

PROGRESS AGAINST TARGETS

Environment

To make considerable progress towards eliminating PVC from most products by the end of 2002

See page 38

All adidas accessories and gear to be PVC-free by the end of 2001

Group-wide accessories to be PVC-free by 2003. See page 38

To have the EMS at Scheinfeld shoe factory externally revalidated

See page 41

To reduce solvent use from 80 grams to 50 grams per pair of shoes

The target is now to get close to 25 grams per pair by the end of 2002. See pages 39 and 40

To return to 1998 levels of air freight use for apparel

We reduced the percentage of apparel shipped by air from 9% to 4%. The 1998 figure was 3%. See pages 39 and 41

To develop strategies for recording the environmental impacts of footwear factories

We have set the strategy, and asked our suppliers to send us particular data which we will report in future. See page 40

Management

To organise 200 SOE training sessions using standardised training packages

We conducted 267 training events. See pages 20 and 21

To launch detailed guidelines on labour, environment and fire safety and to have company-wide HSE guidelines for our own factories

We have produced labour guidelines. The detailed environment best practice manual will be ready in 2002. We decided not to produce fire safety guidelines. Our own factories have access to the HSE guidelines. See pages 18, 21 and 40

To introduce a new factory scoring system

We have formulated the system, but have no data yet. See pages 21 and 25

Suppliers

To have 10% of international adidas suppliers audited by FLA-accredited monitors and to provide internal audit reports and an overall annual report to the FLA

FLA auditing started later than planned and only 15 factories have been audited by FLA-accredited monitors. We still intend to make the target within 12 months of the auditing starting, which is July 2002. See pages 25 and 28

To benchmark the new SOE clauses on worker wages and benefits

Comparisons showed our practices are better than most companies

To ensure all international suppliers have been audited and to assess adidas subsidiaries, and other brands

We have audited about 90% of our international suppliers across all brands and about 50% of local sourcing. See pages 21–25

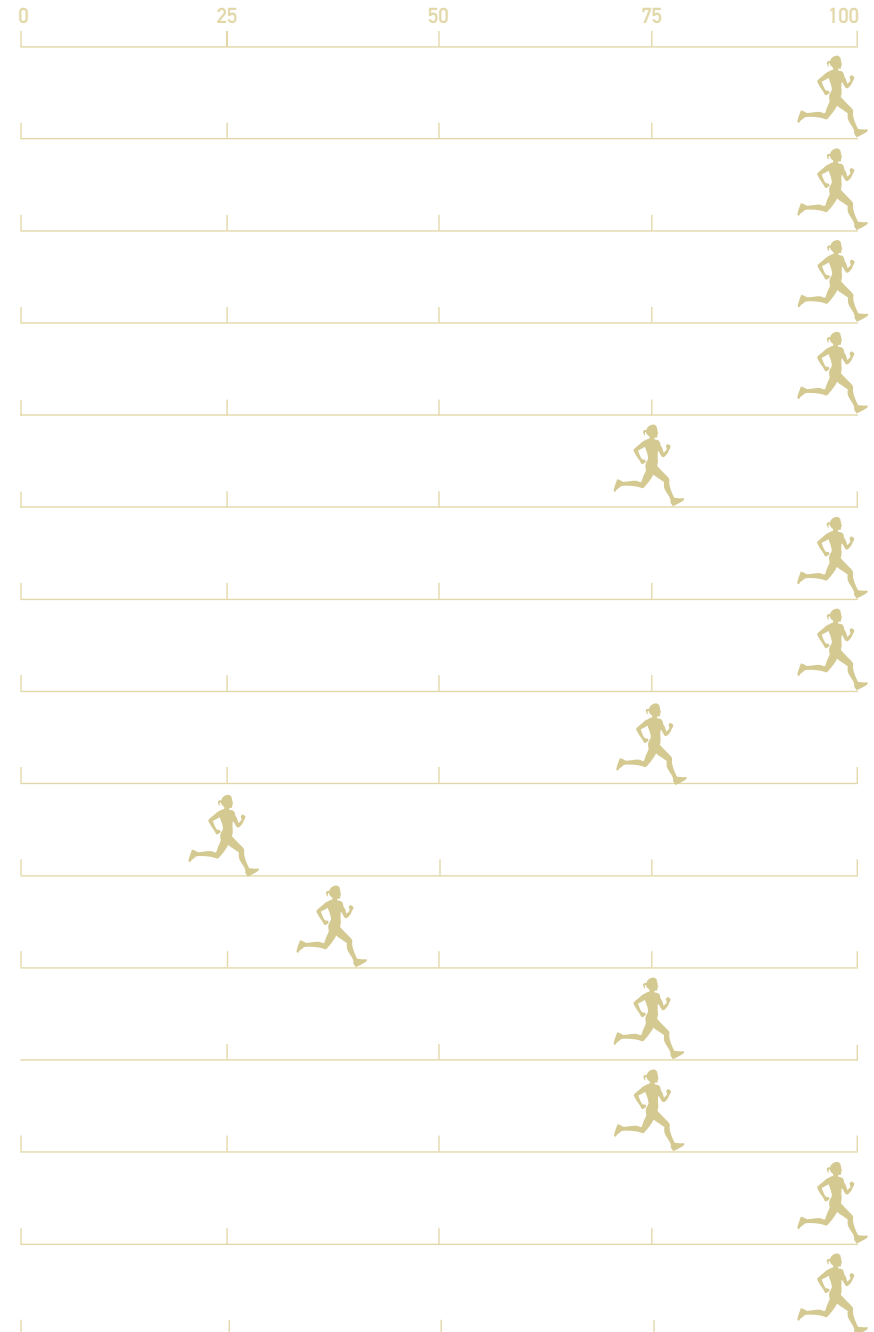
To promote the use of needle guards

We made a video and showed it at training events. See pages 34–35

Economic

To increase earnings per share by 15% and sales by 3–5%

See page 9



THE ROAD MAP

NEXT STEPS

Environment

- To reduce VOC-solvents level from less than 40 grams to around 25 grams per pair of shoes
- To establish a metric system to measure the environmental impact of footwear manufacturing at production sites
- To launch the Guide to Best Environmental Practice to accompany the Guidelines on Health, Safety and Environment and the Guidelines on Employment Standards
- To aim for complete elimination of PVC materials by spring/summer 2003 from product models where PVC is still in use (except ski boots and a few highly technical products)
- To start a pilot project and case study based on principles of integrated product policy

Management

- To hold 300 SOE training sessions
- To have a consistent corporate approach to supporting and funding community programmes
- To further integrate social and environmental affairs into the mainstream of the company through systems development, awareness raising and stronger links between the regional SOE programmes

Suppliers

- To have 10% of adidas international suppliers independently audited by FLA-accredited monitors in the period from 1 August 2001 to 31 July 2002, and to comply with new FLA guidelines thereafter
- To assess all international suppliers using the computerised factory scoring system that will be introduced in the second quarter
- To complete a study of workers' wages and benefits in Indonesia
- To organise structured stakeholder dialogue in Europe and the USA

Economic

- Our expectation is to increase Group sales by at least 5%, with double-digit growth in both North America and Asia
- To maintain our gross margin within our long-term range of 41-43%
- Operating expenses are to increase due to taking more active control of the adidas brand by repurchasing joint ventures, growing our retail business and expanding our business in Asia through our involvement in the 2002 FIFA World Cup™
- To improve on working capital by turning inventories faster and improving customer payment terms
- We anticipate delivering earnings growth of 5-10%

The company

- To continuously strengthen our brands and products in order to improve our competitive position and financial performance

0

25

50

75

100



Glossary

Carbon dioxide (CO₂) Gas produced by burning fuel. CO₂ is one of the main gases contributing to global climate change.

Eco-Management and Audit Scheme (EMAS) European scheme promoting continuous environmental performance improvements of industrial activities by committing sites to evaluating and improving their own environmental performance.

Environmental management system (EMS) System designed to improve a company's environmental performance by ensuring that the all the environmental effects and impacts of a facility are recorded and documented.

Fair Labor Association (FLA) Non-profit organisation setting and helping to verify standards for labour and HSE performance.

HSE Health, safety and environment.

International Labour Organization (ILO) UN agency promoting social justice and human and labour rights.

ISO14000/1 Internationally recognised environmental management standard.

Non-governmental organisations (NGOs) Campaigning groups raising awareness of sustainable development issues in business.

OHSAS 18000 Occupational health and safety standard.

Polyvinyl chloride (PVC) Synthetic material used in the manufacture of sports clothing and equipment but being phased out in some products because of its adverse health and environmental impacts.

SGS Organisation providing verification, testing and monitoring services for international trade in agricultural, mineral, petroleum and consumer products.

Standards of Engagement (SOE) Company code of conduct aiming to ensure that adidas-Salomon's supplier factories are safe, fair places in which to work.

United Nations Children's Fund (UNICEF) UNICEF is mandated by the United Nations General Assembly to advocate for the protection of children's rights and help meet their basic needs.

Volatile organic compounds (VOCs) Solvents that can cause breathing and health problems. VOCs are by-products of the shoe manufacturing process.

The GRI guidelines and this report

The Global Reporting Initiative (GRI) has produced a widely recognised set of guidelines for sustainability reporting. While we do not claim that this is a GRI report, we have tried to follow some of the guidelines' recommendations.

The CEO statement includes our view of social and environmental affairs and our main achievements in 2001.

About our company includes almost all of the elements recommended for building a clear picture of the reporting entity.

The guidelines suggest an executive summary and key indicators chapter that gives a brief overview of performance. The road map chapter includes an overview of how we performed against last year's targets and also covers the targets we have set for the future.

We do not have a separate chapter about vision and strategy. Instead, both Our environmental impacts and Our supply chain begin with a brief outline of our plans for the future.

These two chapters, together with the chapter entitled Our stakeholders, also cover most of the information about policies, organisation and management systems recommended by the guidelines.

We have included some general indicators in Our environmental impacts and Our supply chain. However, as well as these general indicators, the guidelines also recommend including integrated indicators addressing two or more of the economic, social and environmental strands of sustainability. We currently have very few of these and none are included in this report.

We will continue to monitor the development of the GRI guidelines and will seek to apply them more completely next year.

For more information about the GRI go to www.globalreporting.org

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